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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1941

No. 723

THE UNITED STATES OF AMERICA,
Appellant,

vs.

THE MASONITE CORPORATION, CELOTEX CORPORATION, CERTAIN-TEED PRODUCTS CORPORATION, JOHNS-MANVILLE SALES CORPORATION, INSULITE COMPANY, FLINTKOTE COMPANY, NATIONAL GYPSUM COMPANY, WOOD CONVERSION COMPANY, ARMSTRONG CORK COMPANY, and DANT & RUSSELL, INC.,
Appellees.

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

PETITION OF THE APPELLEE ARMSTRONG CORK COMPANY FOR A REHEARING OF THE APPEAL

(Opinion Delivered May 11, 1942)

HORACE R. LAMB,
Solicitor for the Appellee Armstrong Cork Company.

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Of counsel.

Dated: June 5, 1942.

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To The Honorable The Chief Justice and The Associate Justices of the Supreme Court of the United States:

Armstrong Cork Company, one of the appellees in the above-entitled cause, hereby petitions for a rehearing of this appeal, upon the following grounds:

I

In holding that the *del credere* agency agreements are an unlawful extension of Masonite's statutory rights as the owner of a patent, the Court applied tests which have no application to the facts of this case.

The *del credere* agency agreements were not, in any true sense, "licenses to vend" a patented product. While the 1933 and the 1936 agreements employed the expression the manufacturer "authorizes said Agent and licenses it * * * to sell" hardboard manufactured by Masonite, the use of the word "license" was plainly not intended as a grant of any rights under the patents of Masonite; and the agreements were not true "licenses to vend" within the meaning of the patent law. In the 1936 agreement the phrase "under said patents", which had followed the word "licenses" in the 1933 agreement, was eliminated. In the 1941 agreement, which was the only agreement in effect at the date of the trial, the word "license" was omitted entirely. The provision of that agreement reads:

> "Manufacturer hereby appoints Agent a non-exclusive selling agent of Manufacturer with authority to sell hardboard products of the sizes and types hereinafter mentioned manufactured by Manufacturer under United States Letters Patent." (R. 407)

No language was used which can possibly be construed as the granting of any "license" to the Agent under any patents of Masonite.

Under the agency agreements the sale, *i.e.,* the transfer of the title and ownership of the Masonite hardboard, is necessarily made by Masonite to its purchaser; the agent merely procures the purchase order from the cus-

tomer. The agent is not a purchaser of the hardboard. Consequently, the agent does not and cannot sell (or resell) the hardboard and transfer title therein to a purchaser. The agent does not "vend" the product within the meaning of the patent law; the "vending" as well as the "making" of the patented product is reserved to Masonite.

It necessarily follows, therefore, that the agent, as such, does not become vested with any of Masonite's patent rights under and by virtue of the *del credere* agency-agreement. The agency agreement does not confer upon the agent any patent right.

More important, the agency agreements, as such, do not impose any restrictions, conditions or limitations, either as to the acts of the agent or in respect of the products which the agent is authorized to sell, as agent for Masonite, which are founded upon, or are claimed to be founded upon, the provisions of the patent law. It would not be necessary to make any changes whatever in the essential terms, conditions and provisions of the 1941 *del credere* agency agreements, as such, to authorize the agent to sell articles which are unpatented.

While it is true that the Masonite hardboard which the agent is authorized to sell for Masonite is a patented article, the validity of the *del credere agency agreement* is to be tested by the rules of law applicable to the agreements *as an agency agreement*, apart from the fact that the articles which are the subject of the agency are patented. The same test is to be applied to determine the validity of the agency agreement, irrespective of whether the *articles* which are the subject of the agency are patented or unpatented.

In *United States* v. *General Electric Company, et al.*, 272 U. S. 476, at page 488, this Court said:

> "We are of opinion, therefore, that there is nothing as a matter of principle, or in the authorities, which requires us to hold that genuine contracts of agency like those before us, however comprehensive as a mass or whole in their effect are violations of the Anti-Trust Act. *The owner of an article, patented or otherwise,* is not violating the common law, or the Anti-Trust law, by seeking to dispose of his article directly to the consumer and fixing the price by which his agents transfer the title to him directly to such consumer. The first charge in the bill can not be sustained." (Italics supplied.)

Upon the record before the Court on this appeal, it will be found that there is no issue beyond that litigated in that part of the *General Electric* case which dealt with the validity of *del credere* agency agreements. The terms and provisions of the 1941 agreements here are substantially identical with the *del credere* agreements pursuant to which agents of the General Electric Company were authorized to sell patented electric lamps for that Company.

During the oral argument of this appeal the Chief Justice inquired of Government counsel whether the Government claimed that there is any question here "beyond that litigated in the *General Electric* case". Government counsel replied:

> "Well, I am not sure that we do."

Furthermore, during the oral argument the Chief Justice indicated that the *General Electric* case might not apply "for instance, because there was not a true *del*

credere agency agreement". Government counsel stated that the Government made "that argument".

As a matter of fact, the gist of the allegations of the Government's petition, the argument in its brief and the assertions made upon the oral argument are that the agreements here "are not true agency agreements".

But in the Court's opinion on this appeal, it was said:

> "* * * We assume in this case that the agreements constituted the appellees as *del credere* agents of Masonite. But that circumstance does not prevent the arrangement from running afoul of the Sherman Act. The owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no immunity for a monopoly not fairly or plainly within the grant."

We believe the statement plainly indicates that the Court rejected the Government's basic contention and then proceeded to test the validity of the *del credere* agency agreements as if they were agreements of sale coupled with a license to vend patented articles and which imposed upon the agent, or upon a purchaser, some restriction, condition or limitation founded upon or purporting to be founded upon a right under Masonite's patent.

The Court therefore tested the validity of the agreements upon a state of facts which were not before the Court.

The *del credere* agency agreements do not impose any restrictions of conditions founded upon or claimed to be founded upon a patent right.

The 1941 *del credere* agency agreements contain only two references to Masonite patents: (1) in the first paragraph appointing the agent and describing the scope of

authority the hardboard product is described as "manufactured by Manufacturer under United States Letters Patent" (R. 407, 118), but no list of Masonite patents or any statement of the claims thereof forms any part of the agreement; and (2) in paragraph 19 there is a warranty as follows:

> "19. Patent Indemnity.—Manufacturer hereby warrants that the hardboard products which Agent is authorized to sell hereunder, when used for the general purposes for which such hardboard products are customarily designed or intended, will not infringe any United States Letters Patent not owned or controlled, either directly or indirectly, by Manufacturer; and Manufacturer will save harmless and protect Agent, as well as Manufacturer's customers sold by Agent, against any claim or demand based on an alleged infringement of any such other United States Letters Patent. If Agent shall notify Manufacturer of the existence of such suit, Manufacturer shall appear and defend, at its own expense, any and all suits at law or in equity arising from such alleged infringement, provided always that Manufacturer shall have full control of the defense of any such suit." (R. 123; 412, 413)

Those provisions, we respectfully submit, cannot be construed as an attempt by the owner of a patent to extend improperly any patent rights by contract or agreement.

Furthermore, if the Court's ruling on this appeal means that a *del credere* agency is invalid when the articles which the agent is authorized to sell are *patented* articles and valid when the articles are *unpatented*, such a ruling, we respectfully submit, provides a test for determining the validity of a *del credere* agency agreement which is arbitrary and unreasonable.

It is impossible, we believe, to reconcile the Court's ruling on this appeal with the rule stated in the part of the *General Electric* case, *supra*, in which *del credere* agency agreements containing substantially the same terms and provisions were upheld.

This appeal does not present the question litigated in that part of the *General Electric* case in which this Court also upheld the validity of a price-control restriction contained in a license to manufacture and sell patented lamps which had been granted to the Westinghouse Company. In its opinion this Court said:

> "We do not have here any question as to the validity of a license to manufacture and sell, since none of the 'agents' exercised its option to acquire such a license from Masonite."

While the 1933 and 1936 agreements did contain a provision whereby the agent might exercise an option to require a license to manufacture and sell under the Masonite patents, that provision is not contained in the 1941 agreements.

The opinion of the Court continues:

> "* * * Hence we need not reach the problems presented by *Bement* v. *National Harrow Co.*, 186 U. S. 70 and that part of the *General Electric* case which dealt with the license to the Westinghouse Company. *Rather we are concerned here only with a license to vend.* But it will not do to say that since the patentee has the power to refuse a license, he has the lesser power to license on his own conditions. There are strict limitations on the power of the patentee to attach conditions to the use of the patented article. [Citing cases] * * * The test has been whether or not there has been such a disposition of the article that it may fairly be

said that the patentee has received his reward for the use of the article." (Italics supplied.)

In the quoted statement, we believe it is apparent that the Court has overlooked the true facts and has erroneously assumed that the *del credere* agency agreements were licenses "to vend". As we have shown, the agents were not purchasers and they could not "vend" Masonite hardboard. Furthermore, the agency agreements do not attempt to attach any conditions whatever as to the resale or use of the patented hardboard. There is no restriction in respect of the price at which hardboard may be resold by a purchaser.

There can be little room for doubt that the Court has decided this appeal upon a basic misapprehension of the facts and of the legal effect of the agency agreements.

Because of such basic misapprehension, the Court erroneously applied the tests laid down in the decisions of this Court and which are applicable in determining whether a patentee has made such a disposition of the patented article that the article is released from the patent monopoly and whether it can fairly be said that the patentee has received his lawful reward for the use of the patented articles.

But those tests are not applicable where, as here, there has been no disposition, such as a sale, of the patented article to the agent, and there is no attempt to fasten any restrictions upon the use of the patented article or the price at which it may be resold. Therefore, the tests stated in such cases as *Bloomer* v. *McQuewan*, 14 How. 539; *Adams* v. *Burke*, 17 Wall. 453; *Hobbie* v. *Jennison*, 149 U. S. 355; *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8; *Standard Sanitary Mfg. Co.* v. *United*

States, 226 U. S. 20; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436; and *United States* v. *Univis Lens Co.*, No. 855, also decided by this Court on May 11, 1942, have no application to the issue presented on this appeal.

In its opinion on this appeal the Court has further said:

> "* * * Doubtless there is a proper area for utilization by a patentee of a *del credere* agent in the sale or disposition of the patented article. A patentee who employs such an agent to distribute his product certainly is not enlarging the scope of his patent privilege if it may fairly be said that that distribution is part of the patentee's own business and operates only to secure to him the reward for his invention which Congress has provided."

In the foregoing statement, it is apparent that the Court has overlooked the following considerations: Nothing of any commercial value can be gained by the "employment" of a *del credere* agent as part of the patentee's own business. If an employee may, within the scope of his employment, effect the sale of the products of his employer, that suffices; it is unnecessary to authorize the employee also to act as the employer's *del credere* agent. A *del credere* agent has an interest in the agency, because of his guarantee of the payment by the purchaser of goods sold by the principal on orders procured by the agent. Employees cannot be expected to make such guarantees.

To require that the *del credere* agent should also be a part of "the patentee's own business" appears to be a contradiction in terms. A manufacturer normally does not appoint a *del credere* agent unless the services of such agent are required to supplement the manufacturer's own business. Because of the services rendered to his prin-

cipal by a *del credere* agent, the business of the *del credere* agent must necessarily be carried on independently of the business of the principal. The agent's business is separate from the principal's (the patentee's) own business.

No reason is suggested in the Court's opinion why the appointment of a *del credere* agent with authority to sell the products manufactured by the patent owner will secure to the patentee more than a fair and proper reward for the invention. The agent performs the same functions which the principal (the patentee) could perform for himself if equipped with the requisite facilities.

One of the reasons stated for the Court's ruling here is:

> "* * * But where he [the patentee] utilizes the sales organization of another business—a business with which he has no intimate relationship—quite different problems are posed since such a regimentation of a marketing system is peculiarly susceptible to the restraints of trade which the Sherman Act condemns."

It may be observed that unless a *del credere* agent has, as a part of his business, an established sales organization no useful purpose would be served by the appointment of the *del credere* agent. Furthermore, the opinion does not indicate how the requisite degree of "intimacy" of the relationship between the business of the patentee and the sales organization of the *del credere* agent is to be measured in order that a *del credere* agency may be so arranged as to avoid the prohibitions of the Sherman Act.

The opinion continues:

> "* * * And when it is clear, as it is in this case, that the marketing systems utilized by means of the *del credere* agency agreements are those of

competitors of the patentee and that the purpose is to fix prices at which the competitors may market the product, the device is without more an enlargement of the limited patent privilege and a violation of the Sherman Act."

In the foregoing statement the Court has overlooked the fact that all of the sales of Masonite hardboard pursuant to orders taken by the *del credere* agents are sales, that is, transfers of title, made by Masonite to its purchasers. Therefore, the *del credere* agent cannot be said to be in competition with Masonite in the sale of Masonite hardboard. The agent's salesmen may be competing actively with Masonite's salesmen (employees) for orders, but the agent, as such, does not offer for sale a competing hardboard product. Under the agency agreement the sale of the hardboard to a purchaser is made by Masonite.

Furthermore, the prices at which the agents may sell Masonite's products are fixed solely by Masonite as the owner of the products authorized to be sold. And, as we have shown, the agency agreement does not impose any conditions, restrictions or limitations upon the use or resale of the hardboard founded upon patent rights.

The holding of the Court is, therefore, contrary to the true facts.

The opinion of the Court continues further:

> "* * * In such a case the patentee exhausts his limited privilege when he disposes of the product to the *del credere* agent. He then has, so far as the Sherman Act is concerned, no greater rights to price maintenance than the owner of an unpatented commodity would have."

In the foregoing the Court has again erroneously assumed that the ownership of the Masonite hardboard is

transferred *to* the *del credere* agent. The statement is entirely inconsistent with the assumption previously made in the Court's opinion "that the agreements constituted the appellees as the *del credere* agents of Masonite."

The Court may have intended to indicate what it regarded as a ground for distinguishing the case at bar from the situation presented in that part of the *General Electric* case which upheld the *del credere* agency agreements, by saying:

> "In this case some of the appellees had patents on hardboard, some did not. But each was tied to Masonite by an agreement which expressly recognized the validity of Masonite's patents during the life of the agreement and which required the distribution of the patented product at fixed prices."

It does not appear in the record that any appellee has any patent, the claims of which cover hardboard as described in the patents of Masonite. The trial court found that no agent has as yet discovered any hardboard product made of the fibres of wood or woody material which can be manufactured commercially to compete with Masonite hardboard and which avoids the claims of the Masonite patents (R. 882).

The Court has apparently overlooked the fact that the 1941 agreement contains no provision whatsoever which requires the agent to recognize or acknowledge the validity of Masonite patents. Furthermore, the term of the agency agreement has no relation to the life of any patent.

In the concluding portions of the opinion the Court has said:

> "The power of Masonite to fix the price of the product which it manufactures * * * is a powerful inducement to abandon competition.

> * * * The power of this type of combination to inflict the kind of public injury which the Sherman Act condemns renders it illegal *per se.* If it were sanctioned in this situation it would permit the patentee to add to his domain at public expense by obtaining command over a competitor."

It is difficult to understand how the exercise by the owner of a patent of the "power" to fix the price at which a product manufactured and owned by the patentee shall be offered for sale to the public by his agent may be construed as a "power" to inflict public injury so that such "power" is illegal *per se* under the Sherman Act.

The "power", as described, is, we believe, exercised daily in innumerable instances in trade and commerce throughout this country where the products of a manufacturer are sold by agents under *del credere* agency agreements. The "power" to fix the price of one's own property applies in the case of unpatented, as well as patented, products. There appears to be no valid basis for any distinction between the exercise of such "power" when applied to a patented article and when applied to an unpatented article.

While it is true that the Sherman Act imposes a limitation upon the exercise of rights irrespective of whether they relate to patented or unpatented commodities, nevertheless the exercise of the "power" of the owner in either case to fix the price of his own goods has never before, we believe, been held to violate the Sherman Act.

In *U. S.* v. *Trenton Potteries Co.*, 273 U. S. 392, and in *United States* v. *Socony-Vacuum Oil Company*, 310 U. S. 150, the agreements which were held to be illegal *per se* fixed the prices of the products manufactured, owned and sold by the several parties to the agreements. Here the

agreements apply solely to the products of one party and they do not extend to any products owned by the other party to the agreement.

In their brief and upon the oral argument Government counsel argued that the decision of this Court in *United States v. General Electric Company, supra,* does not apply, because the agreements here are not true agency agreements and that if that argument is not accepted by the Court, then "this Court should reconsider and overrule that decision".

The Court did not accept the Government's argument, because it said that it would "assume that the agreements constituted appellees as *del credere* agents of Masonite".

Moreover, as we read the opinion of the Court there is nothing to indicate that the Court intended to overrule that part of the decision in the *General Electric* case, holding valid the *del credere* agency agreements for the marketing of patented electric lamps. The opinion does not state that the provisions of the agency agreements in the case at bar are distinguishable from those held valid in the *General Electric* case. We believe it is impossible to find any sound basis for a distinction.

It is said in the opinion of the Court on this appeal:

> "* * * In the *General Electric* case the Court thought that the purpose and effect of the marketing plan was to secure to the patentee only a reward for his invention. We cannot agree that that is true here. In this case the price regulation was based on mutual agreement among distributors of *competing products,* some of whom had *competing patents,* as we have noted." (Italics supplied.)

The Court erroneously assumed that the agency agreements applied to the products of the agents.

Furthermore, the statement that some of the agents had "competing patents" finds no warrant in the facts here. The issues litigated in this case did not involve a consideration of the claims of any patents owned by any of the agents or the scope of such claims in reference to the claims of the patents owned by Masonite.

The trial court found (Findings No. 39 and 40, R. 882, 883):

> "Masonite Patent No. 1,663,505 is a basic patent covering hardboard and the manufacturing process for making and producing hardboard. Various other defendants have been active for many years, both before and after the making of the aforesaid agreements, in attempting to find a substitute for the patented hardboard which would not infringe this patent, but without success. Neither the making of the various agreements aforesaid with Masonite nor the performance thereof by the other defendants discouraged or dissuaded any of the defendants from efforts to discover or develop non-infringing products or materials which might be sold by them in competition with patented products of Masonite. Various defendants (other than Masonite) were willing and intended to terminate their respective agency agreements with Masonite whenever it should become commercially possible to offer a competitive noninfringing product similar to Masonite's hardboard. Many of the defendants have in fact distributed products which are in many respects competitive with hardboard.
>
> "* * * Masonite's patents on hardboard are fundamental and basic. No contracts or agreements were made by it or with any of the other defendants for the purpose of extending its lawful patent monopoly."

While the Court's opinion makes no reference to the patent owned by appellee Armstrong, the stipulated facts show that Armstrong does not own any patent which is capable of providing any competition with the Masonite patents or with the products manufactured thereunder. The stipulated facts in this respect are as follows (R. 660):

> "During the year 1931 and while Armstrong was carrying on its research in connection with the production of fibreboard insulation its research department developed a type of hardboard product which could be manufactured *with the use of a varnish binder.* Employees of Armstrong's research department obtained a patent on such product and the patent was assigned to Armstrong Cork Company. The patent is No. 1,809,316 and is dated June 9, 1931. Based upon Armstrong's studies no commercial product of the hardboard covered by its said patent was ever manufactured, because in the opinion of Armstrong's executives the cost of manufacture would be so great that the product could not be marketed in competition with the hardboard products manufactured by Masonite under its patents and sold by the Masonite Corporation." (Italics supplied.)

No copy of the Armstrong patent was offered in evidence, so that there is no basis in the record for a comparison of the claims of that patent with the claims of the Masonite patents. But one of the important claims of the Masonite basic patent is that the fibres of the wood or "woody material" are bonded together by "the natural lignins" present in the wood or "woody material", thereby eliminating the expense of introducing into the process of manufacture a costly binder, such as varnish (R. 195).

In respect of the agreement between Masonite and Armstrong, it clearly appears that the statement in the Court's opinion that it was an agreement "between the owners of competing patents" is directly in conflict with the facts as stipulated at the trial by Government counsel.

In the *General Electric* case, in addition to holding the *del credere* agency agreements valid, this Court also held that a manufacturing license granted to the Westinghouse Company upon condition that the licensee should sell the patented product at not less than the price fixed by the licensor was valid because it secured to the patentee no more than he was entitled to as a reward for his invention. Here, as this Court has indicated, there is no question "as to the validity of a license to manufacture and sell".

Nowhere by express terms does the Court hold that the *General Electric* case is overruled, limited or distinguished in any respect.

It will be recalled that in *United States* v. *Univis Lens Company et al.*, No. 855, counsel for the Government also urged the Court to overrule its earlier decision in the *General Electric* case. In its opinion in the *Univis Lens* case delivered May 11, 1942, this Court said:

> "There is thus no occasion for our reconsideration, as the Government asks, of *United States* v. *General Electric Company, supra,* on which appellees rely. The Court in that case was at pains to point out that a patentee who manufactures the product protected by the patent and fails to retain his ownership in it can not control the price at which it is sold by his distributors (272 U. S. at 489)."

Since, therefore, the agreements in the case at bar are, as the courts have indicated, true *del credere* agency agreements under which the principal, Masonite, retains ownership of Masonite hardboard until title is transferred to a purchaser from Masonite, if the decision of this Court in the *General Electric* case still represents a correct statement of the rule of law applicable to *del credere* agency agreements, as well as to licenses under patents to manufacture and sell, then the holding of the Court on this appeal conflicts with the decision in the *General Electric* case.

It is possible that on this appeal the Court was led into an erroneous *application to del credere* agency agreements of the tests for determining the limitations upon the exercise of rights under patents by the fact that, at the request of the Government counsel, this appeal and the Government's appeal in the *Univis Lens* case were argued together.

Furthermore, upon the oral argument on this appeal no counsel for the appellee Armstrong or for any other appellee, a *del credere* agent of Masonite, was heard, except for a few minutes during which counsel for the appellee, The Celotex Corporation, was heard.

We believe the Court may have overlooked that the practical result of its holding may be highly beneficial to Masonite, because it secures to Masonite, in addition to the monopoly rights under its patent, the exclusive distribution of Masonite hardboard. Under the agency agreements, the appellee Armstrong and other appellee agents of Armstrong, over the period of years since the agency agreements were first entered into, have developed, at the agents' expense, a wide market for Masonite hardboard. The Court's holding, however, will deprive appellees, such as Armstrong, of that benefit.

Furthermore, the holding deprives the agents of valuable contract rights which have aided such agents in the sale and distribution of fibreboard insulation and other building materials.

The agency agreements have served the public interest by providing opportunities for placing orders for Masonite hardboard and other building materials. They have not restrained trade,—they have actually promoted trade.

Accordingly, unless the holding of the Court is reconsidered and modified and corrected in the light of the true facts, there will result from the decision of the Court serious, substantial injury to the rights of the appellee agents and to the consuming public.

In addition, it is believed that the inconsistent statements found in the opinion of the Court with respect to the rules applicable to *del credere* agency agreements and the rules applicable where conditions and restrictions are imposed upon the manufacture and sale of patented articles will continue to cause confusion and misunderstanding on the part of the bar, the lower courts, and innumerable persons, firms and corporations who are marketing products under *del credere* agency agreements, many of which relate to patented as well as unpatented articles.

II

In holding that the *del credere* agency agreement dated March 20, 1941 between appellee The Masonite Corporation and appellee Armstrong Cork Company is *per se* a price-fixing agreement between competitors and thus an illegal restraint of trade and commerce, the Court has overlooked and misapplied significant, material facts and has disregarded the policy of the law, as enacted by Congress in the Robinson-Patman Act amending Section 2 of the Clayton Act, which prohibits discrimination in prices between purchasers.

In the opinion the Court discusses the provisions of the agreements made in 1933 under which Masonite designated Armstrong and other appellees *del credere* factors for the sale of Masonite hardboard products. That agreement was terminated in 1936, more than four years prior to the commencement of this action.

But upon a consideration of the 1933 agreement the Court holds:

> "* * * For there is one phase of the case which is decisive. That is the agreement for price-fixing.
>
> "But for Masonite's patents and the *del credere* agency agreements there can be no doubt that this is a price-fixing combination which is illegal *per se* under the Sherman Act. [Citing cases.]"

The only *del credere* agency agreement between Masonite and Armstrong in effect at the time of the trial was the 1941 agreement. The 1936 agreement was superseded in all respects by the 1941 agreement.

The opinion clearly shows that the appeal was decided upon a consideration of the provisions of the 1933 agree-

ment. The Court said it "need not stop to analyze the 1936 agreements * * * since the pattern of the relationship between the appellees was fixed in 1933 and its fundamental characteristics were maintained, not basically altered, in 1936".

It is also said at the conclusion of the Court's opinion:

> "* * * the 1941 agreements, although improved models of an agency agreement, removed none of the features which we have found to be fatal. They still are unmistakable price-fixing agreements with competitors".

The 1941 Agreement Removed All of the Provisions Claimed to Be Objectionable in the 1933 Agreement and Which Were the Basis for the Government's Charge of Price-Fixing

If the Court will examine the provisions of the 1941 agreement and compare that agreement with the superseded agreements made in 1933, we believe the Court will find that each and all of the provisions of the 1933, as well as the 1936 agreements, which were considered as objectionable under the anti-trust laws have been eliminated in the 1941 agreement. The form of the agreement is Exhibit S-51 (R. 407). The 1941 agreement between Masonite and Armstrong is appended to the supplemental answer of Armstrong (R. 117).

In the 1941 agreement the agent does not acknowledge the validity of any of Masonite's patents. The agent is not licensed to sell under Masonite's patents. The 1933 provision whereby Masonite designated minimum selling price and maximum terms and conditions of sale is eliminated. There is no provision in the 1941 agreement whereby Masonite agrees to be bound to adhere to the prices, terms and conditions of sale which it fixes for the

agents. There is no obligation on the part of the agent to pay any liquidated damages whatsoever for any sales at prices less than any minimum price fixed by Masonite.

In the 1941 agreement there is no obligation which requires the agent to pay any freight or transportation costs, or sales or other taxes. In this respect the 1941 agreement expressly provides:

> "Manufacturer [Masonite] shall pay freight charges from Manufacturer's plant at Laurel, Mississippi, to Agent's warehouses on all consignment stocks furnished Agent hereunder. Manufacturer shall also pay all taxes imposed upon consignment stocks and shall insure such consignment stocks against loss or damage by fire and other usual hazards. Agent shall pay all expenses for storage, cartage, transportation (except freight on original consignment stocks), and in addition all other costs, outlays, and expenses in connection with or incidental to, the handling of consignment stocks or the making of sales or deliveries therefrom; but Agent shall not be liable for taxes, excises, fees, or other governmental charges which Manufacturer is required to absorb pursuant to any provision of law applicable to sales made hereunder." (R. 120, 121)

It may be noted in passing that the foregoing clause is substantially identical with a clause in the *del credere* agency agreements held valid by this Court in *United States v. General Electric Company, et al., supra* (272 U. S. 476).

Likewise, there is no provision in the 1941 agreement whereby the agent is obligated to compensate Masonite by making any advances on account of products shipped, as was the case in the 1933 agreements. There is no provision in the 1941 agreement for the payment of the "entire

amount" due Masonite within a stated time after the month in which shipment of hardboard is made.

The 1941 agreement contains a straightforward provision for guaranties by the agent as follows:

> "15. Guaranties by Agent.—Agent guarantees the due and prompt payment to Manufacturer for all sales effected by Agent hereunder. On the 20th day of each calendar month Agent shall pay to Manufacturer any balance due Manufacturer with respect to any such guaranteed account which remained unpaid for a period of more than 60 days as at the last day of the preceding calendar month. Such payment shall constitute full performance of the guaranty of Agent in respect of the account so paid and thereupon Manufacturer shall assign all interest in such account to Agent." (R. 122, 412)

Under the 1941 agreement the agent is only obligated to render reports on the 20th day of each month regarding the manufacturer's hardboard products "on hand and in the custody of the agent on the last day of business in the preceding calendar month"; and not later than the 20th day of each calendar month the agent is required to account for and remit to the manufacturer "all amounts collected by Agent up to the end of the preceding calendar month as proceeds of the sale of hardboard products sold hereunder, after deducting the current commissions of Agent with respect to such products computed in the manner provided in Schedule A annexed hereto" (R. 122, 411).

A significant provision of the 1941 agreement requires that the labels on the products which the agent is authorized to sell clearly disclose that as to such goods the "agent is acting solely as agent for the manufacturer". In this connection petitioner directs the attention of the

Court to Exhibits U and V (R. 835 and 836). They are specimens of the labels on hardboard sold by appellee Armstrong as agent under the 1941 agreement. It is expressly stated on such labels that Armstrong is "Agent for Masonite Corporation in the sale of hardboard products" (R. 835, 836).

In the 1941 agreement there is no right on the part of Masonite, as was the case in the 1933 and 1936 agreements, to terminate the agency for the failure of the agent to place orders for any particular quantity of hardboard products in any period of time. The 1941 agreement also differs from the 1933 and 1936 agreements in that the term of the agency shall continue until March 20, 1945. More important, *the duration of the 1941 agency agreement has no relation whatsoever to the life of any patents owned by Masonite.* The agreement expressly provides that the term of the agency shall commence March 20, 1941 and continue until March 20, 1945, provided that it may be extended from year to year thereafter, but subject to the right of termination at any time by either party for cause. Furthermore, the agreement may be terminated by Armstrong at any time prior to March 20, 1945 by giving the manufacturer not less than six months' previous notice of termination. The agreement may be terminated on March 20, 1945, or any time thereafter by either Masonite or Armstrong by giving six months' prior written notice (R. 124, 125, 413, 414).

There is no provision in the 1941 agreement whereby the agent is obligated to purchase and pay for any of the products consigned to it and unsold, as was the case in the earlier agreements. There is no provision in the 1941 agreement for the issuance of any license to manufacture hardboard, as was the case in the 1933 and 1936 agreements.

In short, all of the provisions upon which the Government relied in its petition as the basis for its claim that the 1933 and 1936 agreements were not true agency agreements, but were purchase and sales agreements with price-control retained by the seller after sale, are not to be found in the 1941 agreement.

It is respectfully submitted that in holding that the 1941 agreement is *per se* a price-fixing agreement the Court has overlooked the following facts:

1. The agreement does not, either expressly or impliedly, directly or indirectly, fix the price of any commodity. It merely authorizes Armstrong to sell a product, *i.e.*, Masonite hardboard, as agent for Masonite, "at such prices and upon such terms, provisions and conditions as may be established by Manufacturer [Masonite] from time to time" (R. 119).

2. The agency agreement cannot possibly constitute a price-fixing agreement, and it does not and cannot restrain trade and commerce in any respect, because:

(a) The prices at which Armstrong may sell Masonite's product are fixed, not by any concerted action whatsoever, but solely by Masonite; the stipulated facts show, the District Court found and in the opinion of this Court it is conceded, that "Masonite alone fixed the prices" and the agents "never consulted with Masonite concerning them". There was, moreover, no "delegation", "acquiescence" or "understanding" on the part of Armstrong or any of the agents in regard to the prices fixed by Masonite for the sale of its own products. Accordingly, the decisions of this Court in *United States* v.

Socony-Vacuum Oil Co., et al., 310 U. S. 150; *United States* v. *Trenton Potteries Co., et al.*, 273 U. S. 392 and *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, have no application here.

(b) The product for which Masonite alone fixes the prices is Masonite hardboard, manufactured and owned by Masonite at all times until title in the product is transferred to a purchaser *from Masonite.* The prices fixed by Masonite alone, pursuant to the provisions of the agency agreement, can have no application whatsoever to any goods owned at any time by Armstrong or any of the other agents.

(c) By the terms of the agency agreement Masonite, the principal in the agency relationship, employs Armstrong to do exactly what Masonite itself can do, namely, sell its own products to a purchaser; the *del credere* agency agreement in suit is, therefore, a true agency agreement—it is not a purchase and sale agreement, as the Government's counsel contended. In the opinion of the Court it was said, among other things:

> "* * * We assume in this case that the agreements constituted the appellees as *del credere* agents of Masonite."

3. In its brief on this appeal and in the oral argument before this Court, counsel for the Government relied primarily upon the contention that the agreements were not true agency agreements, but were actually agreements of purchase and sale. The opinion of this Court indicates that such contention was rejected. The Court appears to have decided the appeal upon a theory different from that upon which the Government relied.

4. The agreement does not provide, either expressly or impliedly, and there is no proof in the record, that the *del credere* agency agreement is a device to control the price of hardboard after the title to such product has been transferred by Masonite to a buyer.

5. There is no express covenant in the 1941 agency agreement that Masonite will sell directly to its buyers at the same prices at which Masonite sells to its buyers through the services rendered by Armstrong as *del credere* agent of Masonite. In that respect, as we have shown, the express provisions of the 1941 agreement differ from the 1933 and 1936 agreements.

The Holding Conflicts With the Policy of the Law Which Prohibits Price Discrimination Between Purchasers of Commodities of Like Grade and Quality

If the Court intended to hold upon this appeal that the 1941 agency agreements are *per se* illegal on the theory that Armstrong and the other *del credere* agencies are bound to sell Masonite products to Masonite's purchasers at prices fixed by Masonite and that such fixed prices are the same as the prices at which Masonite sells directly to its purchasers, that is, on orders obtained by Masonite's own employees, then it is respectfully submitted that this Court has overlooked the express provisions of Section 2 of the Clayton Act, as amended by the Robinson-Patman Act (38 Stat. 730; 49 Stat. 1526; 15 U.S.C.A., Sections 13(a) and (e)). That statute provides:

> "It shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between different purchasers of commodities of like grade and quality * * *."

Such being the policy of the law as to uniformity of prices, it necessarily follows, as a matter of law, that, except as provided in the Clayton Act, as amended by the Robinson-Patman Act, the prices at which Masonite sells its hardboard directly to its purchasers must be the same as the prices at which Masonite sells its products to its purchasers upon orders obtained in the first instance by Armstrong, or one of the other agents, as Masonite's authorized selling agent.

Upon a consideration of the facts which have apparently been overlooked by the Court, and in the light of the policy of the law making discriminatory prices illegal, as stated in the Clayton Act as amended by the Robinson-Patman Act, it is respectfully submitted that the Court is not warranted in holding that the 1941 *del credere* agency agreement is *per se* an illegal price-fixing agreement.

III

In holding that the 1941 *del credere* agency agreement (as well as the 1933 and 1936 agreements) were the result of concerted action or conspiracy to restrain trade and commerce, the Court has overlooked facts which warrant a contrary holding.

The stipulated facts show that Armstrong was the first of all the agents to negotiate with Masonite for the right to manufacture and sell hardboard under Masonite's patents. In 1931 representatives of Armstrong's subsidiary, Armstrong-Newport Company, carried on negotiations with Masonite for a license under Masonite's patents (R. 658). Those negotiations preceded the patent litigation between Masonite and The Celotex Corporation and its Receivers (R. 658). Armstrong desired to supple-

ment its own line of fibre insulation board by adding the Masonite hardboard products. The purpose then, in 1931, and at all times thereafter was to promote the sales of Armstrong's own line of building materials by being equipped to offer Masonite hardboard for which there was an increasing demand on the part of lumber and building supply dealers, customers of Armstrong. Dealers were reluctant to place orders for other building materials unless Armstrong could also fill orders for Masonite hardboard (R. 658, 659).

After the validity of Masonite's patent had been adjudicated in the patent litigation with Celotex, the 1933 agency agreement was entered into by Armstrong in order to obtain the selling rights for Masonite hardboard (R. 658).

There was no proof whatever that Armstrong joined a conspiracy to restrain trade in Masonite hardboard or any other articles of commerce by making the 1933 agreement with Masonite.

At the trial counsel for the Government and counsel for Armstrong stipulated the following facts, among others:

> "When Armstrong, through its subsidiary, entered into the 1933 agreement it did so with the same object in mind that it had in 1931 [when it attempted to negotiate for a license to manufacture Masonite hardboard], namely, to be able to offer Masonite hardboard products to Armstrong's lumber dealer customers to whom it was then offering its fibreboard insulation. * * *
>
> "So far as the Armstrong Company or its subsidiary, Armstrong-Newport Company, was concerned, the making of the 1933 agreement was entirely independent of, and had no relation to, the making of other similar agreements between Mason-

ite Corporation and Celotex or between Masonite Corporation and any other persons, firms or corporations. As stated, as early as 1931 Armstrong had determined that it wanted to be in a position to sell the Masonite hardboard, and being unable to obtain a manufacturing license at that time, it accomplished as best it could the same purpose and object in making the 1933 agency agreement." (R. 659)

The 1936 agency agreement superseded the 1933 agreement.

As of March 20, 1941, Armstrong entered into a new "Appointment of Agent" agreement with Masonite, which superseded the 1936 agreement (R. 663). It was stipulated *as the facts* by Government counsel that:

> "In entering into the new agreement as of March 20, 1941 the object of Armstrong was the same as it was when it first sought a manufacturing license from the Masonite Corporation in 1931, that is, to be in a position to offer Masonite hardboard products to the lumber dealer trade as a supplement to Armstrong's own fibreboard products." (R. 663)

The agreed facts, therefore, show beyond dispute that the rights secured to Armstrong under the *del credere* agency agreements were intended to have, and actually have had, the effect of promoting trade and commerce in other building materials. The authorization to accept orders for Masonite hardboard enabled Armstrong to compete more effectively in the sale of its own building materials (R. 663).

The testimony is overwhelming to the effect that the experience of all agents, including Armstrong, is that dealers in building materials, knowing that they must

carry a stock of Masonite hardboard, as well as other types of insulation board, are not inclined to place orders for other types of insulation board and building materials unless the salesman who solicits orders from such lumber dealers is also in a position to solicit orders for Masonite hardboard (R. 627, 630, 633, 635, 644, 663, 665, 709, 721).

If the Court will read in its entirety the stipulation of facts (R. 655 to 664) made between the attorneys for the Government and for Armstrong, which (as expressly stated therein) was made in lieu of calling officers and employees of Armstrong as witnesses, and which is summarized in the brief of the appellee Armstrong on the appeal herein, it is submitted that the Court can only conclude and hold that Armstrong entered into the agency agreements with Masonite in view of the peculiar circumstances affecting the sale and distribution of Armstrong's own insulating material for building purposes and that the making of the agreement was not the result of any conspiracy or concerted action to restrain trade.

Such a conclusion is fully supported by the stipulated facts, which also contained the following statements:

> "So far as the Armstrong Company is concerned, there has never been any intent or desire for concerted action of any character whatsoever in connection with the sale of Masonite hardboard or the prices at which it would be sold.
>
> "In the normal course of business, Mr. Prentis [President of Armstrong], through reports from the late Mr. Clarke, Mr. Peck and other employees of Armstrong acting under their direction, would have had knowledge of the existence or nonexistence of any agreement on the part of Armstrong with Masonite Corporation or of any agreement on the part of Armstrong with any other persons, firms, or corporations who had entered into or were con-

sidering entering into agreements with Masonite Corporation for the handling of Masonite hardboard products, if such agreement or agreements contained provisions which either restricted the persons, firms, or corporations who might have the opportunity of selling Masonite hardboard or fixed the prices at which Masonite hardboard products would or would not be sold.

"Except that it is conceded that Armstrong entered into agreements with the Masonite Corporation dated December 1, 1933, October 29, 1936, and as of March 20, 1941, so far as Mr. Prentis and Mr. Peck know there has never been any agreement or understanding on the part of the Armstrong Company or its subsidiary with Masonite Corporation or with any other persons, firms, or corporations, or agreement or understanding on the part of Masonite Corporation, with other persons, firms, or corporations, the purpose or effect of which was or is to restrict the persons, firms, or corporations who would have the privilege of selling Masonite hardboard products or to fix the price or prices at which Masonite hardboard products would or would not be sold.

"The entire agreement between Armstrong, or its subsidiary Armstrong-Newport Company, and the Masonite Corporation relating to the sale of Masonite hardboard products (excluding Masonite hardboard which was purchased by Armstrong for fabricating or processing into Armstrong's 'Monowall' products) were set forth in the said agreements dated December 1, 1933 and October 29, 1936 and the supplements thereto." (R. 662, 663)

In the light of the stipulated facts, it is submitted that the holding in *Interstate Circuit, Inc.* v. *U. S., supra* (306 U. S. 208, at pp. 226, 227), upon which the Court relied, in part, in its opinion herein, has no application whatsoever.

There was no "unanimous acceptance" of or "acquiescence" in a "proposal" or "invitation" of one producer of a commodity, *i.e.*, Masonite, to impose restrictions in respect of the commodities produced by others and sold in competition with Masonite.

Furthermore, the stipulated facts here show that officers, authorized to act for the agents and in a position to know whether they had acted in pursuance of any conspiracy or agreement to impose restrictions upon the products of the agents, if called as witnesses, would have negatived the existence of any such conspiracy or agreement.

Upon its facts the case at bar is clearly distinguishable from the situation considered by this Court in the *Interstate Circuit* case.

In its opinion on this appeal, this Court also said:

> "* * * The circumstances surrounding the making of the 1936 agreements * * * leave no room for doubt that all had an awareness of the general scope and purpose of the undertaking."

While the opinion does not state all of the facts surrounding the making of the 1936 agreements, it does refer to the fact that the 1936 agreements when executed were placed in escrow and that each agent "knew at that time that Masonite proposed to make substantially identical agreements with the others. The escrow agreement provided that it should become effective only when all the 'agents' had agreed to it. The new agreements became effective October 29, 1936."

But the opinion does not mention the reason for depositing all of the executed copies of the 1936 agreements in escrow prior to delivery. The fact is that the agreements contained provisions whereby the rates of compen-

sation previously payable under the 1933 agreements were increased (R. 275). In addition, the 1936 agreement contained a covenant in Section 22 as follows:

> "Section 22. In the event that the Manufacturer [Masonite] shall make any sales agency agreement with respect to the sale in the Continental United States or the Hawaiian Islands of all or any hard board products manufactured by it which may be sold by the Factor under and pursuant to this Agreement containing terms or provisions more favorable to the sales agent therein than those granted to the Factor by this Agreement, then the Factor herein shall be entitled to have the benefit thereof * * *." (R. 293)

The executed 1936 agreements were deposited under an escrow agreement for the sole purpose of carrying out in good faith the covenants contained in Section 22.

Regarding the making of the 1941 agreement, the Court said in its opinion:

> "* * * And if there were any lingering doubt as to whether the appellees were parties to a conspiracy it is dispelled at this point. A committee of the appellees was appointed to draft the new agreement. The agreement was completed after meetings at which representatives of all of the appellees attended. The 1941 agreements were the product of joint and concerted action."

In that statement the Court has again overlooked the true facts and has obviously been misled by the contentions made in the Government's brief and by Government counsel on the oral argument.

The 1941 agreement was not drafted by a committee of the appellees; it was drafted by a committee of lawyers,

all members of this bar, appointed by all of the counsel representing defendants in this action.

In the Government's petition the charges of restraint of trade were directed against specific provisions of the 1933 and 1936 *del credere* agency agreements. It was alleged that because of those provisions the agreements were not true agency agreements.

The committee of attorneys drafted a new agreement which contained none of the objectionable provisions. They took as their model the *del credere* agency agreements held valid by this Court in *United States* v. *General Electric Company, et al., supra* (272 U. S. 476).

Upon its completion a copy of the draft was submitted to the staff of the Assistant to the Attorney General, including the attorneys for the Government on the trial of this cause and on the appeal to this Court, for an expression of their views. The Government attorneys were informed that Masonite proposed to enter into new agreements with each of its existing *del credere* agents in the form and containing the terms and provisions as contained in the draft. It was suggested to the Government counsel that the making of the new agreements should provide a basis for the settlement of the litigation without the necessity of trial (R. 53, 54, 116).

After consultation with the Assistant to the Attorney General the Government attorneys informed the committee, in substance, that while the Assistant to the Attorney General could not express any opinion regarding the legality of either the form or the contents of the proposed new agency agreements, so far as the Government was concerned, the defendants were free to enter into any agreement as they might determine but the Government could not consider that the new agreements provided any basis for the settlement of the litigation without trial.

The Government attorneys expressed no objection to the proposed execution and delivery of the new agency agreements between Masonite and the other appellees, including Armstrong (R. 116; see also R. 53, 54).

The actual execution and delivery of the 1941 agreements was a matter for the determination of each agent, acting independently of the other, and there is no evidence that such new agreements were executed and delivered pursuant to any conspiracy or concerted action *to restrain trade and commerce.*

Included in the findings of fact made by the District Court is the following:

> "After the present suit was started, an effort was made, after notification to the Government as set forth in the stipulations of fact herein, to remove from the agreements a number of provisions which had been criticized by the Government. This resulted in the preparation of entirely new and superseding agreements, which were executed separately by all of the defendants, dated March 20, 1941, but which actually became effective April 1, 1941, and which did not contain many of the provisions of the previous agreements to which the Government had made objection. These agreements were not intended to and did not change the fact of agency created by the earlier agreements and are now in full force and effect." (R. 879)

In view of all of the facts and circumstances surrounding the preparation, as well as the execution and delivery of the 1941 agreements, we do not believe that this Court will hold that the "concerted action" on the part of the attorneys for the appellees, which resulted in the elimination from existing agreements of provisions, claimed by Government counsel to be objectionable from the standpoint of the anti-trust laws, constitutes proof that the appellees were parties to any unlawful conspiracy.

The Court has indicated that the acts of the committee in drafting the 1941 agreement must have been directed to a lawful purpose, for the Court has said in its opinion that the 1941 agreements were "improved models of an agency-agreement".

Actually, the terms, provisions and conditions of the 1941 agreements are, for all intents and purposes, identical with those contained in the *del credere* agency agreements which this Court held not violative of the Sherman Act in the *General Electric* case, *supra*.

The Court should grant a rehearing of this appeal so that appellees may have an opportunity to show that the facts warrant the conclusion that the preparation, as well as the execution and delivery, of the 1941 agency agreements does not provide any evidence of a "conspiracy" or of "concerted action" to restrain trade and commerce in Masonite hardboard or any other commodity.

CONCLUSION

For the reasons stated, therefore, it is respectfully requested that the petition to rehear the appeal herein should be granted.

Petitioner further requests that opportunity be granted for oral argument in support of this application at a date to be fixed by the Court.

Respectfully submitted,

HORACE R. LAMB,
Solicitor for the Appellee
Armstrong Cork Company.

WALTER F. KAUFMAN,
Of Counsel.

Certificate of Counsel

The undersigned, counsel for appellee Armstrong Cork Company, the petitioner in the foregoing petition for the rehearing of the appeal in this cause, hereby certifies that said petition is presented in good faith and not for delay.

HORACE R. LAMB.

SUPREME COURT OF THE UNITED STATES.

No. 723.—OCTOBER TERM, 1941.

The United States of America, Appellant, vs. The Masonite Corporation, Celotex Corporation, Certain-Teed Products, et al.	Appeal from the District Court of the United States for the Southern District of New York.

[May 11, 1942.]

Mr. Justice DOUGLAS delivered the opinion of the Court.

The question presented by this case is whether appellees have combined to restrain trade or commerce in violation of §§ 1 and 2 of the Sherman Act. 15 U. S. C. §§ 1, 2, 26 Stat. 209. The bill to enjoin the alleged violations of the Act was dismissed by the District Court (40 F. Supp. 852) on the authority of *United States* v. *General Electric Co.,* 272 U. S. 476. The case is here on appeal. 15 U. S. C. § 29, 32 Stat. 823, 36 Stat. 1167; 28 U. S. C. § 345, Judicial Code, § 238.

The appellees are Masonite Corporation, Celotex Corporation, Certain-Teed Products Corporation, Johns-Manville Sales Corporation, Insulite Company, Flintkote Company, National Gypsum Company, Wood Conversion Company, Armstrong Cork Company, and Dant & Russell, Inc. Each is engaged either in manufacturing and selling building materials, or in selling building materials manufactured by others. All maintain selling organizations and to a large extent compete in the same markets. As we shall see, some have competing patents, though others do not. Masonite is a manufacturer and distributor of hardboard. Hardboard—a homogeneous, hard, dense, grainless, synthetic board—is made from wood chips. It has a high tensile strength, low water absorption and a density that ranges from 30 to 60 lbs. per cubic foot. It is used in the building industry as wallboard, panelling, flooring, ceilings and forms into which concrete is poured. It also has numerous industrial uses. Masonite began its production of hardboard in 1926 and distributed it through its own selling or-

ganization. Between March 30, 1926 and March 20, 1928, four patents were issued to it, the claims of which covered both hardboard and the processes for making it. Celotex for some period prior to 1928 had been manufacturing and selling insulation board —a fibre board which has a density of less than 30 lbs. per cubic foot and which is softer and lighter, has a lower tensile strength, and is less resistant to water than hardboard. In 1928 Celotex announced that it intended to begin the manufacture of hardboard from bagasse, a waste product from the grinding of sugar cane. It began production in 1929. Several patents were issued to it. Late in 1928 Masonite notified Celotex that its hardboard infringed Masonite's patents. Various discussions were had with a view of avoiding patent litigation by entering into a cross-licensing agreement. Masonite refused. Celotex continued to manufacture and sell hardboard. Its production increased from about 800,000 square feet in 1929 to about 12,000,000 square feet in 1933. It sold its product in competition with Masonite's hardboard and marketed it at prices lower than Masonite sold its hardboard. In 1931 Masonite instituted suit against Celotex for infringement of one of its patents. The District Court held Masonite's patent valid but not infringed. 1 F. Supp. 494. Masonite appealed. The Circuit Court of Appeals held that Masonite's patent was both valid and infringed. 66 F. 2d 451. A petition for a writ of certiorari was filed in this Court in September, 1933. About that time Masonite renewed negotiations with Celotex. Those negotiations resulted in a settlement of the patent litigation and in the execution of the so-called "agency" agreement of October 10, 1933[1]—one of the agreements which is here attacked and which we discuss later.

Shortly after the decision of the Circuit Court of Appeals in the patent litigation between Celotex and Masonite, the latter company sent the same proposed "agency" agreement which it had worked out with Celotex to various of the appellees. Johns-Manville Sales Corporation, National Gypsum Company, Armstrong Newport Company (predecessor of Armstrong Cork Company), Hawaiian Cane Products Ltd. (assignor of Certain-Teed Products Corporation), and Wood Conversion Company each executed identical agreements with Masonite on various dates between October 31,

[1] In 1932 receivers for Celotex were appointed by the United States District Court for the District of Delaware and an ancillary receiver was appointed by the United States District Court for the Northern District of Illinois. The agreement with Masonite was authorized by those courts.

1933 and June 25, 1934. As each agreement was made Masonite informed the other party of the existence and terms of each of the agreements which Masonite had previously made with the others. And as each contract was executed Masonite sent copies to the companies which had previously executed similar contracts.

Insulite, a manufacturer of insulation board, began producing hardboard in 1930. Its production rose from about 4,500,000 square feet in 1932 to about 9,000,000 square feet in 1933 and amounted to over 7,000,000 square feet annually in 1934 and 1935. There was some evidence that it was selling hardboard at prices lower than those of Masonite. It was advised by Masonite in July, 1933, of possible legal action if it continued to manufacture and sell hardboard. It received from Masonite a copy of the proposed "agency" agreement. It formally advised Masonite of its refusal to enter into any such agreement in December, 1933. In March, 1934, Masonite filed suit against a dealer who handled Insulite's hardboard charging infringement of one of Masonite's patents. Insulite undertook the defense; but before issue was joined negotiations between Insulite and Masonite resulted in the execution in February, 1935 of a so-called "agency" agreement substantially identical with the agreement between Masonite and Celotex.[2] At that time Insulite knew that Masonite and the other companies had previously executed the other agreements.

Disputes arose between Masonite and the so-called "agents" concerning the operation and construction of the "agency" agreements. As a result, the agreements were modified in 1936. Each agreement when executed in 1936 was placed in escrow. The escrow agreement was signed by each of the companies and included the name of each of the other "agents". Each "agent" knew at that time that Masonite proposed to make substantially identical agreements with the others. The escrow agreement provided that it should become effective only when all the "agents" had agreed to it. The new agreements became effective October 29, 1936. In 1937 Flintkote Company and Dant & Russell, Inc. entered into identical agreements with Masonite. Though their agreements differed somewhat from the 1936 agreements, they were substan-

2 At the time Insulite entered into this agreement with Masonite its parent company was in receivership in the United States District Court for the District of Minnesota. The receivership court authorized Insulite to execute the agreement with Masonite.

tially similar for present purposes. Both companies knew when they signed the contracts that similar "agency" agreements existed between Masonite and the other appellees.

By each of the 1933 agreements Masonite designated the other party as an "agent" and appointed it as a "*del credere* factor" to sell Masonite's hardboard products. The "agent" expressly acknowledged the validity of Masonite's hardboard patents so long as the agreement remained in force. The "agent" agreed to promote the sale of Masonite hardboards. Masonite agreed to manufacture designated hardboard products in specified sizes and to ship on orders and specifications from the "agent" to any place within the continental United States or Hawaii. Masonite agreed to designate from time to time the minimum selling price and the maximum terms and conditions of sale at which the "agent" might sell Masonite's products. The list prices and terms of sale were to be the minimum prices and maximum terms of sale at which Masonite was either offering or making sales to its customers. The right to change the list prices and terms of sale was vested solely in Masonite and might be exercised on 10 days' notice. It was agreed that Masonite was bound to adhere to the prices, and terms and conditions of sale which it fixed for its "agents". In case the "agent" sold for less than the minimum price it was obligated to pay liquidated damages at a specified rate. On direct shipments to the "agent" the hardboards "shall be received and held on consignment" and "title thereto shall remain" in Masonite until sold by the "agent". The minimum prices were f. o. b. Masonite's factory, the "agent" paying freight and transportation costs and sales and other taxes. The "agent" also agreed at its expense to carry insurance on all products consigned to it. The "agent's" compensation was fixed by way of specified commissions on each sale. The "agent" was prohibited from making sales (except for off-sized boards) to any person other than specified classes. Those provisions permitted the "agent" to sell only to the construction industry, the industrial market being reserved for Masonite. The "agent" agreed to compensate Masonite by advancing one-half of the difference between the list price and the agent's discount within 20 days after the close of the month in which the order was shipped and the balance within 20 days after the close of the month in which the products were sold by the "agent" to its customers. In case of

direct shipments by Masonite to the customers of the "agent" the latter agreed to pay the entire amount due Masonite within 20 days after the close of the month in which the shipment was made. The "agent" agreed not to use the trade name or the trade marks of Masonite. But the latter agreed to mark, without extra cost, all hardboard with the "agent's" or its customer's name or trade mark if the "agent" or customers so desired. And Masonite reserved the right to mark all products sold by the "agent" with Masonite's patent notice. Masonite warranted that the products were to be "good, workmanlike products of a character and quality equal to that currently manufactured by it and sold to its customers." Its liability was to be limited to replacing without cost to the "agent" any "defective material when the defect is one of manufacture". The "agent" agreed to make monthly reports on inventory consigned and on hand. For any default of the "agent" Masonite could terminate the arrangement on 30 days' notice. Masonite could also terminate in case of the bankruptcy, receivership, or insolvency of the "agent" or in case the "agent" failed to order from Masonite at least 1,500,000 square feet of hardboard products for any six months' period. The "agent" could terminate the agreement on six months' written notice. On termination of the agreement the "agent" agreed to "purchase and pay for all products consigned to it and unsold"; or at the option of Masonite the latter might have the products returned to it and refund to the "agent" all advances made by the "agent" to or for Masonite's account. Masonite agreed to issue to the "agent" at its request "a license to manufacture and sell hard boards" under its patents on specified terms and conditions and on payment of designated sums—$200,000 if the license was issued before December 31, 1934, and decreasing amounts if the license was issued at subsequent dates. Masonite reserved the right to inspect and examine, through certified public accountants, the physical inventory and the books and records of the "agent" relating to the transactions covered by the agreement. Masonite agreed to save harmless and protect the "agent" and its customers against any claim that the hardboards infringed any patent owned by others than the parties to the agreement. Provisions for arbitration and for assignment of the agreement were included. And it was provided that the agreement should continue "during the life of that one" of spe-

cified patents of Masonite "having the longest term to run, including any reissues, extensions or improvements thereof", unless the agreement was sooner terminated by either party. Each agreement had attached a form of "license" to manufacture and sell to be used in case the option license was exercised.[3]

We need not stop to analyze the 1936 agreements. They contained numerous changes and elaborations. But they are not important for the purposes of this case since the pattern of the relationship between appellees was fixed in 1933 and its fundamental characteristics were maintained, not basically altered, in 1936. Nor need we stop to explore all of the contentions made by the United States. They include arguments that there has been an illegal division of markets (*Addyston Pipe & Steel Co.* v. *United States*, 175 U. S. 211); that the "agency" agreements have been used to control unlawfully other materials sold in combination with hardboard, the subject matter of Masonite's patents (*Carbice Corp.* v. *American Patents Dev. Corp.*, 283 U. S. 27); that in some instances the combination unlawfully controlled the price of hardboard "owned" by the "agents" (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436); and that the arrangement included agreements to suppress the use of patents contrary to the rule of *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20, and *Standard Oil Co.* v. *United States*, 283 U. S. 163, 174. But we can put these contentions to one side without expressing an

[3] There were in some cases supplemental agreements. Thus Celotex agreed to withdraw its petition for a writ of certiorari in this Court, Masonite waived an accounting in connection with that infringement suit, and each of the parties agreed to pay its own costs and expenses incurred in that litigation. In the case of Insulite, Masonite agreed to dismiss the patent suit which it had instituted against one of Insulite's dealers without prejudice to the patent claims of either party. Masonite also agreed to purchase a press from Insulite and to lease that press to Insulite on condition that any hardboard made with it should be of the type theretofore manufactured by Insulite and should not be marketed except "by sale for export only". Masonite could terminate Insulite's right to manufacture for export by offering to sell Insulite hardboard for that purpose. This agreement was without prejudice to Masonite's rights or the rights of its foreign licensees under Masonite's foreign patents.

In 1937 both Insulite and Masonite had applications for patents relating to hardboard pending in the Patent Office. Certain claims of these applications were involved in interference proceedings. Masonite was contending that Insulite was infringing its patents in Finland. By contract the interference proceedings were settled in 1938 by Masonite conceding priority to certain patent claims of Insulite and by Insulite giving Masonite an exclusive royalty-free license under all of Insulite's patents and patent applications relating to hardboard. The license excluded Insulite from using the patents. The alleged infringement of the Finnish patents was settled by Masonite assigning its Finnish patents to Insulite.

opinion on them. For there is one phase of the case which is decisive. That is the agreement for price-fixing.

But for Masonite's patents and the *del credere* agency agreements there can be no doubt that this is a price-fixing combination which is illegal *per se* under the Sherman Act. *United States* v. *Trenton Potteries Co.*, 273 U. S. 392; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436; *United States* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150. That is true though the District Court found that in negotiating and entering into the first agreements each appellee, other than Masonite, acted independently of the others, negotiated only with Masonite, desired the agreement regardless of the action that might be taken by any of the others, did not require as a condition of its acceptance that Masonite make such an agreement with any of the others, and had no discussions with any of the others. It is not clear at what precise point of time each appellee became aware of the fact that its contract was not an isolated transaction but part of a larger arrangement. But it is clear that as the arrangement continued each became familiar with its purpose and scope. Here as in *Interstate Circuit, Inc.* v. *United States*, 306 U. S. 208, 226, "It was enough that, knowing that concerted action was contemplated and invited, the distributors gave their adherence to the scheme and participated in it." The circumstances surrounding the making of the 1936 agreements and the joinder in 1937 of the two other companies leave no room for doubt that all had an awareness of the general scope and purpose of the undertaking. As this Court stated in the *Interstate Circuit* case (p. 227): "It is elementary that an unlawful conspiracy may be and often is formed without simultaneous action or agreement on the part of the conspirators. . . . . Acceptance by competitors, without previous agreement, of an invitation to participate in a plan, the necessary consequence of which, if carried out, is restraint of interstate commerce, is sufficient to establish an unlawful conspiracy under the Sherman Act." And as respects statements of various appellees that they did not intend to join a combination or to fix prices, we need only say that they "must be held to have intended the necessary and direct consequences of their acts and cannot be heard to say the contrary." *United States* v. *Patten*, 226 U. S. 525, 543. Nor can the fact that Masonite alone fixed the prices and that the other appellees never consulted with Masonite concerning them make the combination any

the less illegal. Prices are fixed when they are agreed upon. *United States* v. *Socony-Vacuum Oil Co., supra,* p. 222. The fixing of prices by one member of a group pursuant to express delegation, acquiescence, or understanding is just as illegal as the fixing of prices by direct, joint action. *id.* Since there was price-fixing, the fact that there were business reasons which made the arrangements desirable to the appellees, the fact that the effect of the combination may have been to increase the distribution of hardboard without increase of price to the consumer or even to promote competition between dealers, or the fact that from other points of view the arrangements might be deemed to have desirable consequences would be no more a legal justification for price-fixing than were the "competitive evils" in the *Socony-Vacuum* case.

But it is urged that the arrangement is saved from the Sherman Act by the *General Electric* case. The District Court so held, as we have noted. In that connection the District Court found that Masonite's patents on hardboard were "fundamental and basic", that there was no monopoly or restraint other than the monopoly or restraint granted by the patents, that the parties had an honest and sincere intent to recognize and exercise the rights belonging to Masonite under its patents, and that the agreements constituted a "true agency" to carry out that purpose. We assume *arguendo* that the patents in question, owned by Masonite, are valid. But we do not agree that the "agency" device saved the arrangement from the Sherman Act.

Del credere agency has an ancient lineage and has been put to numerous business and mercantile uses. Chorley, *Del Credere,* 45 Law Quarterly Rev. 221; Mechem, Agency (2d ed.) ch. IV. But however useful it may be in allocating risks between the parties and determining their rights *inter se,* its terms do not necessarily control when the rights of others intervene, whether they be creditors or the sovereign. See Klaus, Sale, Agency and Price Maintenance, 28 Col. L. Rev. 441, 443-450. We assume in this case that the agreements constituted the appellees as *del credere* agents of Masonite. But that circumstance does not prevent the arrangement from running afoul of the Sherman Act. The owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no immunity for a monopoly not fairly or plainly within the grant. We have recently stated in *Morton Salt Co* v. *Suppiger Co.,* No. 49, decided January 5, 1942, "the

public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant." Beyond the limited monopoly which is granted, the arrangements by which the patent are utilized are subject to the general law. *Standard Sanitary Mfg. Co.* v. *United States, supra; Boston Store* v. *American Graphophone Co.*, 246 U. S. 8, 25; *Ethyl Gasoline Corp.* v. *United States, supra.*

We do not have here any question as to the validity of a license to manufacture and sell, since none of the "agents" exercised its option to acquire such a license from Masonite. Hence we need not reach the problems presented by *Bement* v. *National Harrow Co.*, 186 U. S. 70 and that part of the *General Electric* case which dealt with the license to Westinghouse Company. Rather we are concerned here only with a license to vend. But it will not do to say that since the patentee has the power to refuse a license, he has the lesser power to license on his own conditions. There are strict limitations on the power of the patentee to attach conditions to the use of the patented article. As Chief Justice Taney said in *Bloomer* v. *McQuewan*, 14 How. 539, 549, when the patented product "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." And see *Adams* v. *Burke*, 17 Wall. 453; *Hobbie* v. *Jennison*, 149 U. S. 355. In applying that rule this Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern. The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article. *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store* v. *American Graphophone Co., supra.* And see *United States* v. *Univis Lens Co., Inc.*, No. 855, decided this day. In determining whether or not a particular transaction comes within the rule of the *Bloomer* case regard must be had for the dominant concern of the patent system. As stated by Mr. Justice Storey in *Pennock* v. *Dialogue*, 2 Pet. 1, 19, the promotion of the progress of science and the useful arts is the "main object"; reward of inventors is secondary and merely a means to that end. Or, in the words of Mr. Justice Daniel in *Kendall* v. *Winsor*, 21

How. 322, 329, "Whilst the remuneration of genius and useful ingenuity is a duty incumbent upon the public, the rights and welfare of the community must be fairly dealt with and effectually guarded. Considerations of individual emolument can never be permitted to operate to the injury of these." And see *Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.*, 166 Fed. 555.

That must be the point of departure for decision on the facts of cases such as the present one lest the limited patent privilege be enlarged by private agreements so as to by-pass the Sherman Act. *Ethyl Gasoline Corp.* v. *United States*, *supra*, pp. 456-459. Certainly if the *del credere* agency device were given broad approval, whole industries could be knit together so as to regulate prices and suppress competition. That would allow the patent owner under the guise of his patent monopoly not merely to secure a reward for his invention but to secure protection from competition which the patent law unaided by restrictive agreements does not afford. Doubtless there is a proper area for utilization by a patentee of a *del credere* agent in the sale or disposition of the patented article. A patentee who employs such an agent to distribute his product certainly is not enlarging the scope of his patent privilege if it may fairly be said that that distribution is part of the patentee's own business and operates only to secure to him the reward for his invention which Congress has provided. But where he utilizes the sales organization of another business—a business with which he has no intimate relationship—quite different problems are posed since such a regimentation of a marketing system is peculiarly susceptible to the restraints of trade which the Sherman Act condemns. And when it is clear, as it is in this case, that the marketing systems utilized by means of the *del credere* agency agreements are those of competitors of the patentee and that the purpose is to fix prices at which the competitors may market the product, the device is without more an enlargement of the limited patent privilege and a violation of the Sherman Act. In such a case the patentee exhausts his limited privilege when he disposes of the product to the *del credere* agent. He then has, so far as the Sherman Act is concerned, no greater rights to price maintenance[4] than the owner of an unpatented

[4] It should be noted in this connection that the Miller-Tydings Act (50 Stat. 693) which amended § 1 of the Sherman Act so as to legalize certain types of resale price agreements expressly excluded "any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any

commodity would have. *Dr. Miles Medical Co.* v. *John D. Parks & Sons Co.*, 220 U. S. 373. Our reasons for that conclusion are as follows:

Congress has provided that a patentee shall have the "exclusive right to make, use, and vend the invention or discovery" for a limited period. 46 Stat. 376, 35 U. S. C. § 40. But the scope of the right to "vend" cannot be determined by reference to the private law of sales alone. Since patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute. *United States* v. *Univis Lens Co., Inc., supra.* So far as the Sherman Act is concerned the result must turn not on the skill with which counsel has manipulated the concepts of "sale" and "agency" but on the significance of the business practices in terms of restraint of trade.

In this case some of the appellees had patents on hardboard, some did not. But each was tied to Masonite by an agreement which expressly recognized the validity of Masonite's patents during the life of the agreement and which required the distribution of the patented product at fixed prices. In the *General Electric* case the Court thought that the purpose and effect of the marketing plan was to secure to the patentee only a reward for his invention. We cannot agree that that is true here. In this case the price regulation was based on mutual agreement among distributors of competing products, some of whom had competing patents, as we have noted. None of these patents, except possibly some held by Celotex, had been held to conflict with or infringe the Masonite patents. Nor are we warranted in assuming, in absence of a definite adjudication, that one grant by the Patent Office is more valid than another. It is true that the District Court found that both before and after the agreements in question the various appellees had been active in attempting to find a substitute for the patented hardboard which would not infringe Masonite's so-called "basic" patents; that they were not successful in that search; that the agreements did not discourage or dissuade them from their efforts to discover or develop non-infringing products; that they were willing and intended to

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commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other."

terminate their respective agency agreements whenever it should become commercially possible to offer a competitive non-infringing product; and that many of the appellees have in fact distributed products which were in many respects competitive with hardboard. But those circumstances are not controlling.

The power of Masonite to fix the price of the product which it manufactures, and which the entire group sells and with respect to which all have been and are now actual or potential competitors, is a powerful inducement to abandon competition. The extent to which that inducement in a given case will have or has had the desired effect is difficult, if not impossible, of measurement. The forces which that influence puts to work are subtle and incalculable. Active and vigorous competition then tend to be impaired not from any preference of the public for the patented product but from the preference of the competitors for a mutual arrangement for price-fixing which promises more profit if the parties abandon rather than maintain competition. The presence of competing patents serves merely to accentuate that tendency and to underline the potency of the forces at work. Control over prices thus becomes an actual or potential brake on competition. This kind of marketing device thus actually or potentially throttles or suppresses competing and non-infringing products and tends to place a premium on the abandonment of competition. It is outside our competence to inquire whether the result was or was not beneficent or whether the evil was or was not realized. As in case of an appraisal of the reasonableness of prices which are fixed, such a determination could satisfactorily be made "only after a complete survey of our economic organization and a choice between rival philosophies" (*United States* v. *Trenton Potteries Co., supra*, p. 398) and only after weighing a host of intangibles. *United States* v. *Socony-Vacuum Oil Co., supra.* The power of this type of combination to inflict the kind of public injury which the Sherman Act condemns renders it illegal *per se*. If it were sanctioned in this situation it would permit the patentee to add to his domain at public expense by obtaining command over a competitor. He would then not only secure a reward for his invention; he would enhance the value of his own trade position by eliminating or impairing competition. That would be no more permissible than a contract between a copyright owner and one who has no

copyright, or a contract between two copyright owners or patentees, to restrain the competitive distribution of the copyrighted or patented articles in the open market. *Interstate Circuit, Inc. v. United States, supra,* p. 230. As stated in *Standard Sanitary Mfg. Co. v. United States, supra,* p. 49, rights conferred by patents "do not give any more than other rights a universal license against positive prohibitions. The Sherman law is a limitation of rights, rights which may be pushed to evil consequences and therefore restrained."

Since the transactions here challenged were in interstate commerce no question as to the violation of the Sherman Act remains. But it is urged that the agreements made by the appellees in 1941 after the present suit was instituted mark an abandonment of the former combination and that since the new arrangement is unobjectionable, there is nothing to enjoin. The difficulty with that contention is that the 1941 agreements, though improved models of an agency arrangement, removed none of the features which we have found to be fatal. They still are unmistakable price-fixing agreements with competitors. And if there were any lingering doubt as to whether the appellees were parties to a conspiracy it is dispelled at this point. A committee of the appellees was appointed to draft the new agreement. The agreement was completed after meetings at which representatives of all of the appellees attended. The 1941 agreements were the product of joint and concerted action.

Reversed.

Mr. Justice Roberts and Mr. Justice Jackson did not participate in the consideration or decision of this case.

A true copy.

Test:

Clerk, Supreme Court, U. S.